

Message Text

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 NEAE-00 SSO-00 INR-05 DOE-11
DOEE-00 SOE-02 CIAE-00 NSAE-00 DODE-00 OES-02
EB-04 SP-02 L-01 PM-03 OMB-01 EUR-08 INRE-00
ARA-10 AF-04 /075 W
-----015957 271431Z /47

O 271252Z DEC 77
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC IMMEDIATE 6099
WHITE HOUSE IMMEDIATE
TREASURY DEPT WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 3 TEHRAN 11413

LIMDIS

DEPT PASS ENERGY DEPT FOR SCHLESINGER

TREASURY FOR BLUMENTHAL AND SOLOMON

E.O. 11652: GDS
TAGS: ENRG IR
SUBJ: INTERNATIONAL ENERGY BONDS

1. DURING STATE VISIT OF SHAH TO WASHINGTON LAST MONTH, HE
RAISED IDEA OF "INTERNATIONAL ENERGY BONDS" AS MEANS OF RAISING
CAPITAL TO FINANCE DEVELOPMENT OF ALTERNATE SOURCES OF ENERGY.
THIS IDEA CAUGHT THE PRESIDENT'S INTEREST AND HE ASKED ME TO
FOLLOW UP WITH IRANIAN AUTHORITIES ON MY RETURN TO TEHRAN.

2. BECAUSE OF UNEXPECTED DEATH OF CHAIRMAN OF NATIONAL IRANIAN
OIL COMPANY, TRANSFER OF FINANCE MINISTER ANSARY TO REPLACE
HIM, AND APPOINTMENT OF NEW FINANCE MINISTER, IT HAS BEEN
DIFFICULT TO OBTAIN AN AUTHORITATIVE STATEMENT OF THE PROPOSAL
FROM THE GOI. HOWEVER, ON DEC 27, PRIMIN AMOUZEGAR
SENT ME A SUMMARY STATEMENT OF THE PROPOSAL WITH
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ASSURANCES THAT IT HAD BEEN APPROVED BY THE SHAH.

3. IT WILL BE SEEN FROM TEXT OF PROPOSAL, WHICH IS CON-
TAINED IN THIS TELEGRAM, THAT VERY LITTLE DETAIL HAS BEEN
DEVELOPED IN THIS PRESENTATION. HOWEVER, IT DOES
FORM THE BASIS FOR FURTHER STUDY AND PERHAPS FOR SOME
LIMITED DISCUSSION DURING PRESIDENT'S VISIT TO TEHRAN.

4. IN VARIOUS FOLLOW-UP DISCUSSIONS I HAD ON THIS SUBJECT IN WASHINGTON AND NEW YORK, I WAS INTRIGUED BY SUGGESTION EMANATING FROM S/P IN STATE, WHICH PROPOSED THAT SUCH AN ENERGY FUND BE MANAGED WITHIN THE OECD FRAMEWORK, AND THAT OPEEC DOLLARS BE USED TO FINANCE ALTERNATE ENERGY PROJECTS IN OECD NATIONS WHICH WOULD, INCIDENTALLY, HAVE THE EFFECT OF STIMULATING GENERAL ECONOMIC ACTIVITY IN THOSE NATIONS, THEREBY LIFTING THEM MORE RAPIDLY OUT OF CURRENTLY DEPRESSED LEVELS OF PRODUCTION AND EMPLOYMENT.

5. I BELIEVE THE MARRYING OF THESE TWO IDEAS HAS MERIT AND SHOULD BE STUDIED. IN ANY EVENT, I REQUEST THAT THE FOLLOWING IRANIAN TEXT BE BROUGHT TO THE PRESIDENT'S ATTENTION, SO THAT HE WILL HAVE A CHANCE TO READ IT PRIOR TO HIS MEETING WITH SHAH DEC 31.

6. TEXT AS RECEIVED FROM PRIMIN AMOUZEGAR FOLLOWS:

MEMORANDUM

ENERGY BANK AND CONVERTIBLE ENERGY BONDS

SURPLUS FUNDS ACCUMULATED BY SOME OIL EXPORTING COUNTRIES ARE INCREASING CONSTANTLY. BECAUSE OF THE MANY VARIABLE FACTORS INVOLVED, NO TWO AUTHORITIES AGREE EXACTLY ON THE DIMENSIONS OF THIS FINANCIAL PROBLEM, BUT THEY DO ALL AGREE THAT IT WILL BE STAGGERING.
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IT MUST BE EMPHASIZED THAT THE PROBLEM HAS NOT BEEN CAUSED BY OPEC AS A WHOLE, BUT BY ONLY SOME OF ITS MEMBER COUNTRIES. IN THE CASE OF SOME MEMBERS, SUCH AS IRAN, VENEZUELA, NIGERIA, ALGERIA, AND INDONESIA, THERE SHOULD NOT BE ANY SERIOUS PROBLEM OF EXCESS REVENUES, AS ALL THESE COUNTRIES HAVE RELATIVELY LARGE POPULATIONS AND GREAT POTENTIAL FOR DEVELOPMENT. BUT OTHER OPEC MEMBERS HAVE SMALL OR THINLY SCATTERED POPULATIONS OR INSIGNIFICANT AGRICULTURAL AND INDUSTRIAL POTENTIAL.

SO IRAN IS NOT A FACTOR IN THE FINANCIAL CRISIS.
NEVERTHELESS THIS SUPER-ABUNDANCE OF SURPLUS FUNDS WILL EXIST AND HAS TO BE SATISFACTORILY RE-CYCLED. THERE SEEMS TO BE NO EASY SOLUTION TO THIS PROBLEM, BUT THE FOLLOWING MAY INDICATE SOME OF THE PROBABLY REMEDIES:

FIRSTLY, THE OIL PRODUCING COUNTRIES HAVE OF COURSE RAISED THEIR IMPORTS CONSIDERABLY, AND WILL DOUBTLESS SPEND MORE ON IMPORTED GOODS AS TIME GOES ON, BUT THERE ARE OBVIOUS LIMITATIONS TO THIS POLICY.

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FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC IMMEDIATE 6100
WHITE HOUSE IMMEDIATE
TREASURY DEPT WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 2 OF 3 TEHRAN 11413

LIMDIS

DEPT PASS ENERGY DEPT FOR SCHLESINGER

TREASRY FOR BLUMENTHAL AND SOLOMON

SECONDLY, GREATER POSSIBILITIES EXIST IN INVEST-
MENT ABROAD, IN THE PURCHASE OF EQUITY SHARES IN FOREIGN
COMPANIES OR FOREIGN REAL ESTATE. BUT ANXIETY HAS BEEN
EXPRESSED ABOUT THE DANGER OF TOO GREAT A PROPORTION OF
THE PETRODOLLARS FLOWING TO A VERY LIMITED NUMBER OF THE
RICHER NATIONS, TO THE DETRIMENT OF OTHER INDUSTRIALIZED
COUNTRIES AND THE DEVELOPING WORLD AS A WHOLE.

THIRDLY, A SOLUTION WHICH, THOUGH PERHAPS IMMATURE
AND ACADEMIC, MAY YET PROVE TO BE VERY SIGNIFICANT, IS ONE
THAT WE OFFERED AS A SUGGESTION SOME YEARS AGO. IT MAY AT
LEAST SERVE AS A FEELER TO TEST THE REACTION OF BANKERS AND
BOTH THE PRODUCING AND THE CONSUMING COUNTRIES.

IT ORIGINATED IN THE FEELING THAT A FURTHER
THREAT TO WORLD STABILITY IS THAT OIL PRODUCERS, CAUGHT
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BETWEEN GALLOPING INFLATION ON THE ONE HAND AND DIMINISH-

ING PETROLEUM RESERVES ON THE OTHER, MAY BE MORE AND MORE TEMPTED TO LET THE VALUE OF THEIR OIL APPRECIATE IN THE GROUND, RATHER THAN PRODUCE IT TO EXCHANGE FOR MONEY THAT IS FAST LOSING ITS VALUE, IT WILL NOT HAVE ESCAPED YOUR ATTENTION THAT SOME COUNTRIES HAVE ALREADY PLACED LIMITS ON THEIR PRODUCTION, AND THAT OTHERS HAVE SPOKEN OF DOING THE SAME. IN THE MEMORABLE WORDS OF PRESIDENT PEREZ OF VENEZUELA, SPOKEN IN THE COURSE OF A STATEMENT IN WHICH HE STRESSED THAT HIS PETROLEUM POLICY WOULD BE CONSERVATIONIST, "THE BEST BANK IS A HOLE IN THE GROUND."

BUT THE OIL PRODUCING COUNTRIES HAVE BY NO MEANS FORGOTTEN THEIR OBLIGATIONS TO THE REST OF THE WORLD, AND WOULD LIKE NOTHING BETTER THAN TO BE SHOWN A WAY OUT OF THIS IMPASSE.

THIS SOLUTION, WHICH MIGHT PUT AN END TO THE PRESENT CRISIS, COULD BE TO DEPOSIT SOME OR ALL OF THE REMAINING SURPLUS OIL FUNDS IN A SPECIAL ENERGY BANK WHICH COULD BE AN ENTIRELY NEW AND INDEPENDENT ORGANIZATION.

AGAINST THE FUNDS DEPOSITED, THE NEW BANK WOULD ISSUE LONG TERM, INTEREST BEARING, CONVERTIBLE ENERGY BONDS, THE NOMINAL VALUE OF WHICH WOULD BE EXPRESSED IN UNITS OF BOTH ENERGY AND CURRENCY THAT WOULD CORRESPOND WITH THE CASH VALUE OF THE ENERGY ON THE DATE OF ISSUE.

AT MATURITY THE BANK WOULD, AT THE DISCRETION OF THE DEPOSITORS, EITHER ARRANGE FOR THE RETURN

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OF THE SAME AMOUNT OF ENERGY OF A SIMILAR TYPE OR ITS PREVAILING MARKET VALUE OR JUST THE NOMINAL VALUE OF THE BOND. SUCH REPAYMENTS COULD OF COURSE BE EXTENDED OVER A PERIOD OF TIME TO BE AGREED.

NEEDLESS TO SAY IT WOULD BE NECESSARY TO DRAW UP A SUITABLE BANKING AND LEGAL INSTRUMENT GUARANTEEING THE BONDS AND PROVIDING SAFEGUARDS SATISFACTORY TO ALL PARTIES INVOLVED.

SUCH AN ARRANGEMENT WOULD REMOVE THE PETROLEUM EXPORTING COUNTRIES "FEAR OF INFLATION, AND ENCOURAGE THEM TO PRODUCE SUFFICIENT FOR THE WORLD ENERGY NEEDS DURING THE TRANSITIONAL PERIOD IN WHICH WE MUST, ALL OF US, SWITCH OVER FROM OUR PRESENT WASTEFUL CONSUMPTION AS FUEL OF OUR IRREPLACEABLE HYDROCARBON

RESERVES.

IN SHORT, THIS WILL BE TANTAMOUNT TO THE LOAN OF ENERGY BY PRODUCERS WHO HAVE UNWANTED SURPLUSES TO CONSUMERS WHO WOULD RETURN AN EQUIVALENT AMOUNT OF ENERGY AT A LATER DATE, WHEN THE WEST HAS HAD TIME TO DEVELOP SUFFICIENT ALTERNATIVE SOURCES.

SHOULD SUCH AN IDEA BE ACCEPTABLE IN PRINCIPLE TO ALL PARTIES CONCERNED, THE EXPERTS COULD STUDY AND EXAMINE THE VARIOUS POSSIBILITIES AND THEN PREPARE PRACTICAL DETAILS FOR ITS IMPLEMENTATION.

1. THIS PROPOSAL WOULD YIELD SEVERAL BENEFITS:
IT WOULD REDUCE THE UNAVOIDABLE INCREASING URGE OF THE PRODUCING COUNTRIES TO MAXIMIZE THE RISE IN OIL PRICES, SINCE THEY WOULD HAVE THE OPTION AT MATURITY TO CLAIM PPAYMENT IN ENERGY UNITS.
2. IT WOULD ENABLE PRODUCING COUNTRIES TO CONTINUE TO SELL CRUDE FROM THEIR PETROLEUM RESERVES WITHOUT PUTTING THEIR FUTURE ECONOMIC WEALTH AND WELLBEING AT RISK
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3. IT WOULD PROVIDE PRODUCTIVE USE OF PRODUCING COUNTRIES, REVENUES WHICH ARE SURPLUS TO THEIR IMMEDIATE NEEDS.
4. IT WOULD, BY MAKING FUNDS AVAILABLE THROUGH THE ENERGY BANK, HELP FINANCE THE DEVVELOPMENT OF NEW ENERGY RESOURCES AND DEFER ADVERSE BALANCE OF PAYMENTS EFFECTS UNTIL COUNTRIES HAVE HAD A REASONABLE TIME TO DEVELOP SOUND ENERGY PROGRAMS AND TO DEVELOP NEW ENERGY "INVENTORIES" WHICH WOULD MAKE THEM LESS DEPENDENT ON OIL.

THE GENERAL OUTLINE OF THIS PROPOSAL COULD THEREFORE HELP TO MEET MANY OF THE ENERGY PROBLEMS WE NOW FACE; BUT FOR THIS SCHEME OR ANY OTHER LIKE IT TO WORK WILL REQUIRE A NEW DEMENSION OF INTERNATIONAL ECONOMIC CO-OPERATION THAT HAS NOT YET BEEN FORTHCOMING. FOR EXAMPLE, ANY SUCH PROGRAM WOULD REQUIRE AGREEMENT AMONG AT LEAST THE OIL IMPORTING COUNTRIES AS TO HOW THE FUNDS OF THE BANK COULD BEST BE UTILIZED AND HOW THE RESPONSIBILITY TO MEET THE EVENTUAL OBLIGATIONS TO THE BANK'S DEPOSITORS WOULD BE SHARED.

NEVERTHELESS, THE WORLD HAS GRADUALLY COME TO RECOGNIZE THAT SOLUTIONS TO ENERGY QUESTIONS NECESSARILY LIE IN THE INTERNATIONAL SPHERE. SO LONG AS THE WORLD'S MAJOR ENERGY RESOURCES ARE IN COUNTRIES WHICH ARE NOT

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC IMMEDIATE 6101

WHITE HOUSE IMMEDIATE

TREASURY DEPT WSHDC IMMEDIATE

C O N F I D E N T I A L SECTION 3 OF 3 TEHRAN 11413

LIMDIS

DEPT PASS ENERGY DEPT FOR SCHLESINGER

TREASRY FOR BLUMENTHAL AND SOLOMON

THE MAJOR CONSUMERS OF ENERGY, THIS WILL BE SO. IT IS THEREFORE ENCOURAGING TO SEE THAT TODAY FAR MORE COUNTRIES OF THE WORLD ARE BEING INVITED TO PARTICIPATE IN ENERGY PLANNING THAN IN PREVIOUS DELIBERATIONS ON ALMOST ANY SUBJECT.

THE ADOPTION OF SUCH A SCHEME WOULD PROVE BENEFICIAL TO BOTH SIDES, AS IT WOULD PROVIDE A GOOD SAFEGUARD FOR THE PRODUCERS BY MAINTAINING THE VALUE OF THEIR SURPLUS FUNDS WHILE GIVING THE CONSUMERS A MORATORIUM - WHICH IS NEEDED - DURING WHICH TO PRODUCE SIMILAR ALTERNATIVE SOURCES OF ENERGY.

THIS SUGGESTION HAS BEEN TREATED WITH MIXED FEELINGS IN CERTAIN INTERNATIONAL CIRCLES BUT HAS MET WITH A FAVORABLE REACTION FROM SOME ECONOMIC AND CONFIDENTIAL

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BANKING AUTHORITIES, WHO AGREE THAT UNDER THIS SCHEME A SUBSTANTIAL PART OF THE SURPLUS OIL FUNDS WOULD BE TAKEN OUT OF THE ORDINARY FINANCIAL SYSTEM,

WITH THEIR REEMERGENCE, IN A DIFFERENT FORM, POST-
PONED FOR A NUMBER OF YEARS.
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Message Attributes

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Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
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Disposition Case Number: n/a
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SAS ID: 125363
Secure: OPEN
Status: NATIVE
Subject: INTERNATIONAL ENERGY BONDS
TAGS: ENRG, IR, US
To: STATE WHITE HOUSE
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